

Post-2004 Power Marketing Plan **Implementation Brochure**

I. Introduction

Western currently markets 1,470 MW of power to over 70 Preference customers in California. Western markets the hydropower generation of the Central Valley Project (CVP) and Washoe Project (Appendix 3). In past years, Western also marketed the energy associated with several long-term purchase power agreements with Pacific Northwest suppliers. Under the terms of Contract 14-06-200-2948A (Contract 2948A) with the Pacific Gas and Electric Company (PG&E), the energy produced by the CVP and long-term purchases are integrated with PG&E resources for delivery to both the Project Use and Preference power customers.

Both Contract 2948A and the current marketing plan under which Western markets power expire on December 31, 2004. PG&E advised Western that they do not intend to renew Contract 2948A when it terminates. Western, in consultation with its customer and other interested stakeholders, anticipated these events in the development of the 2004 Power Marketing Plan.

The 2004 Power Marketing Plan (Marketing Plan) as published in the Federal Register, (64 FR 24417) on June 25, 1999 (Appendix 4), established the criteria for marketing CVP and Washoe Project power for a 20-year period beginning on January 1, 2005 and ending on December 31, 2024. Existing customers and new allottees have executed their Base Resource¹ contracts. Under the Marketing Plan, First Preference customers have through June 30, 2003 to execute their Base Resource contracts. The Marketing Plan allows existing customers to receive a percentage allocation of the Base Resource based primarily on their existing Contract Rate of Delivery (CRD). Pursuant to Reclamation Law, the Marketing Plan assures that statutory obligations to Project Use loads and First Preference customers are maintained.

Western established several other criteria in the Marketing Plan and these are summarized below.

- 1) All Preference customers will schedule their Base Resource allocation in accordance with the applicable Control Area Operator's (CAO) operating protocols and tariff.
- 2) Each Preference customer will receive a percentage of the Base Resource based on its extension CRD².

¹ See Appendix 2 for the definition of Base Resource

² *Extension CRD*. An existing customer's CRD exclusive of diversity and curtailable power, and peaking/excess capacity, as it may be adjusted in accordance with the Marketing Plan.

Post-2004 Power Marketing Plan
Implementation Brochure

- 3) Preference customers desiring a supplemental power supply and/or related services (e.g., scheduling agent or scheduling coordinator services), may contract with Western under a Custom Product contract(s).

The Base Resource is a fundamental component of the Marketing Plan. Previously, Western supplied customers with a fixed capacity and load factored energy allocation with minimum and maximum entitlements. The Marketing Plan outlines how Preference customers will receive their allocated percentage of the Base Resource.

Since the publication of the Marketing Plan, the Sierra Nevada Region of the Western Area Power Administration (Western) has worked closely with the Mid-Pacific Regional Office of the Bureau of Reclamation (Reclamation) to identify implementation-related issues and concerns within the context of developing a conceptual framework and approach. In addition, Western has also worked with the CVP Preference power customers, and more recently with the new allottees, to develop implementation elements for the Marketing Plan.

The implementation elements continue to be heavily influenced by ongoing changes in the electric utility industry and an interest by customers to maximize the value of the CVP hydropower resource, as well as Western's new initiative to form a FCA or participate in another control area. Within the past year, these changes have caused Western and its customers to reassess a number of issues and to accordingly review a number of operating assumptions associated with the implementation of the Marketing Plan. The culmination of these efforts resulted in the development and distribution of a Draft Implementation Brochure (Draft Brochure) at a customer meeting on May 22, 2002.

As requested in the Draft Brochure, Western received comments from 40 customers. After careful review and consideration of the comments, Western is now finalizing and publishing this Implementation Brochure. Comments received from customers are summarized in Appendix 8. In order to assure timely and successful implementation, Western will continue to meet with customers as appropriate to communicate progress, as well as to discuss any relevant implementation issues which may arise.

Post-2004 Power Marketing Plan

Implementation Brochure

II. Brochure Overview

This Implementation Brochure (Brochure) includes information on the following subjects:

- Project Use
- Base Resource
- Custom Product
- Ancillary Services
- Transmission and Delivery
- Other Issues

Brochure Assumptions

Federal Control Area (FCA)

Until the formation of the California Independent System Operator (CAISO) in 1998, PG&E was the Control Area Operator (CAO) for northern and central California. While there may be a dispute on PG&E's obligations after January 1, 2005, for the purposes of this Brochure, it is assumed that PG&E is no longer serving as the Scheduling Coordinator (SC). As a result, Western and its customers will begin interacting directly with the CAISO. Based on our recent experience and absent any other agreement to the contrary, the cost of interacting with the CAISO will be passed through directly to Western's customers. To mitigate business uncertainties, transactional complexities, and direct exposure to CAISO costs, Western, in coordination with Reclamation, is initiating the necessary steps to become a certified and fully operational control area by no later than January 2005. Once fully operational, Western anticipates that control area membership will be opened to all interested Preference power customers.

It is impractical and premature to definitively state what the FCA or its operating protocols would look like at this time. However, as more definitive information becomes available, Western will make the necessary adjustments to the implementation plan. In the meantime, this Brochure presumes the successful formation of a FCA. In the event that the FCA is not formed before the Marketing Plan is implemented, the current CAISO tariff and protocols will be assumed.

Classes of Preference Power Customers

Beginning in 2005, Western expects to have up to 77 CVP Preference power customers—64 existing customers and 13 new allottees. Of the existing customers, four (4) are First Preference entities. The following two charts display percent Base Resource allocations and the composition of customer classes.

Post-2004 Power Marketing Plan Implementation Brochure

Chart 1: Post-2004 Preference power customers sorted by Base Resource allocations

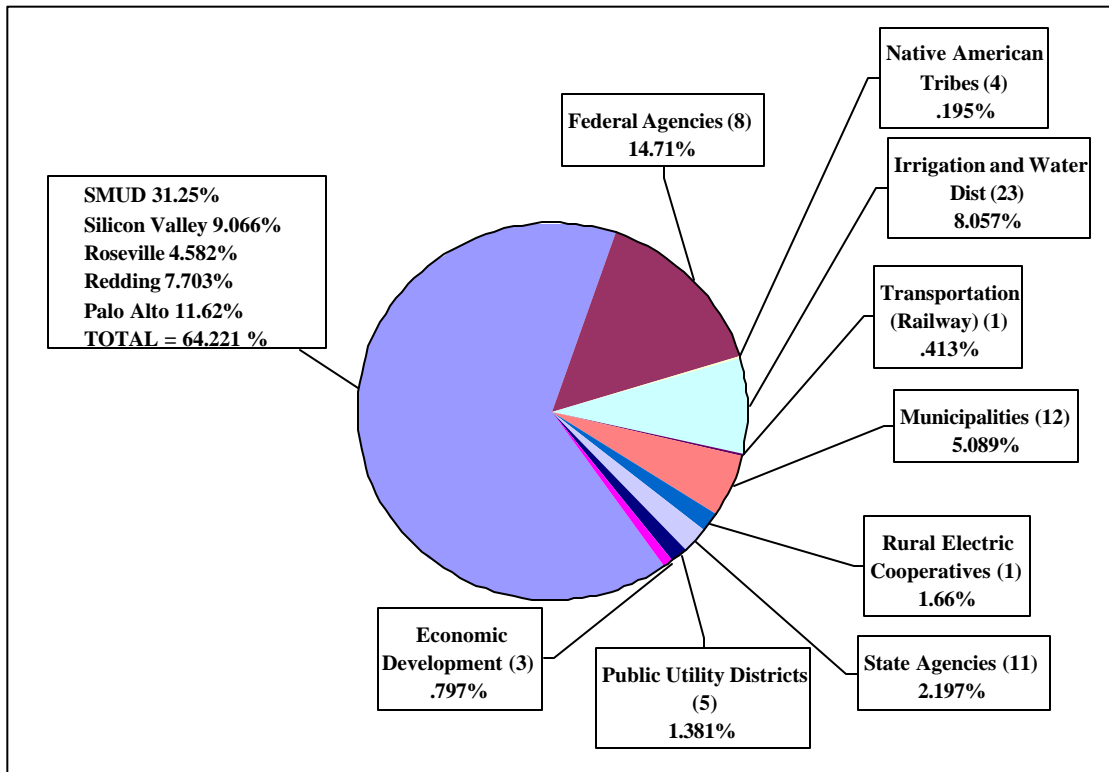
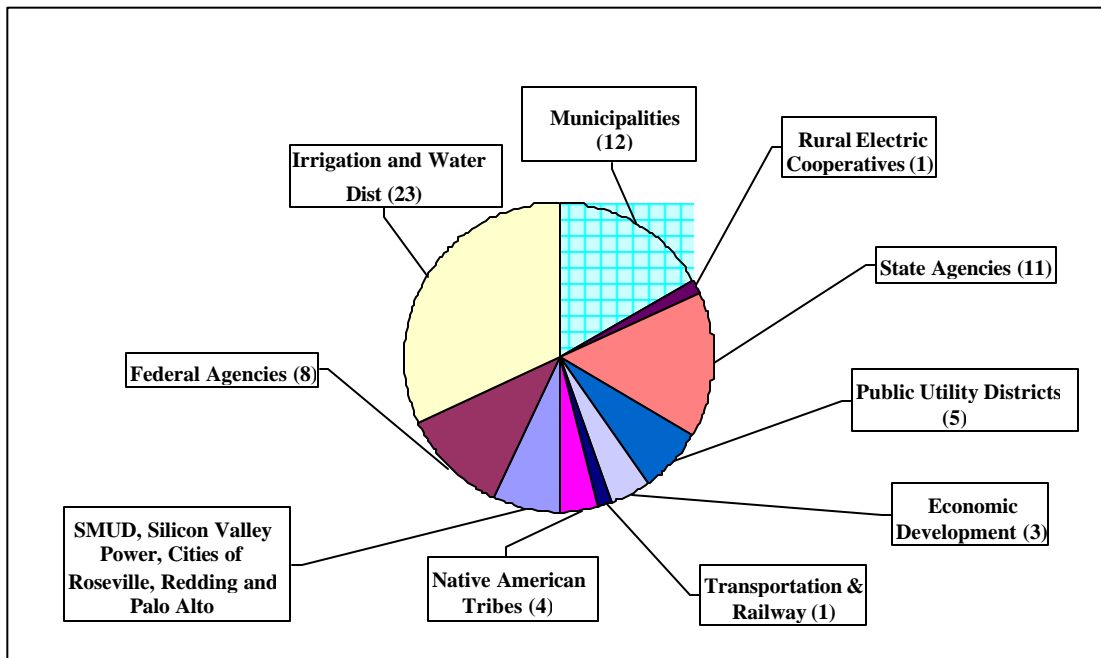


Chart 2: Post-2004 Preference power customer composition sorted by customer class.



Post-2004 Power Marketing Plan

Implementation Brochure

At previous Western meetings, reference was made to two sets of customers -- smaller and larger customers and/or 30% and 70% class of customers based on Base Resource allocations. In this Brochure, the nomenclature used will be the ***Full Load Serving Customers*** and the ***Variable Resource Customers***. For informational purposes, Variable Resource customers may be considered the previous 70% or larger customer class, while the Full Load Serving customers may be considered the 30% or smaller customer class. Table 1 lists some of the possible characteristics of the two categories of customers.

Table 1: General Characteristics of Variable Resource and Full Load Service Customers

Variable Resource Customers	Full Load Service Customers
Internal resources and/or other contracts to firm Base Resource	No internal generation and/or contracts to firm Base Resource
Power resource planners	No power resource planners
Scheduling desks	No scheduling desks
Load forecasters	No load forecasters
Western delivery points generally serve loads > 50 MW	Western delivery points generally serve loads of < 50 MW

Custom Product Focus

In October 2000, Western surveyed the existing Preference power customers and new allottees about their desire for a Custom Product beginning in 2005. Through those initial conversations and follow up discussions, Western separated customer into two categories—those customers who only wanted Base Resource energy and a second category of customers who wanted to firm their Base Resource energy with a Custom Product.

Most of the initial work Western did on the Custom Product focused on those customers that had given Western an indication they were interested in a Custom Product. Specifically, this interested group consisted mostly of those customers that receive supplemental power from either PG&E or the Sacramento Municipal Utility District (SMUD) to meet their total load through their delivery point (traditionally referred to as x/y customers). Most of the information on the Custom Product contained in this Brochure is structured for the customers that initially demonstrated interest.

Recently, some customers that had previously suggested that they were not interested in a Custom Product have indicated that they may be interested now. Western wants to ensure that customers understand that Western intends to honor our pledge, as outlined in the Marketing Plan, to provide customers who request a Custom Product with the applicable product or service. The components contained within the Custom Product are described later in the Brochure.

Post-2004 Power Marketing Plan **Implementation Brochure**

New Allottees

The Marketing Plan sets aside a portion of the marketable power resources to establish a 2005 Resource Pool. Western published a Call for 2005 Resource Pool Applications (64 FR 56343) and a Notice of Extension to file applications (64 FR 69018) in the Federal Register (Appendix 5). In those notices Western proposed to allocate portions of the 2005 Resource Pool to applicants meeting the eligibility criteria listed in the Final Marketing Plan notice. On July 26, 2000, Western published the final 2005 Resource Pool allocations. Beginning in 2005, there are 13 new Preference power customers, and like existing customers, the new allottees executed Base Resource contracts with Western in December 2000.

As part of the Implementation Plan, Western will include a section or sections on the issues of receiving power by the new allottees. At this time the issues include, but may not be limited to, metering, direct access (delivery of the resource), exporting to customers in a different control area, and the lack of historical load data. Where able, Western has made specific distinctions in this Brochure that deal directly with the new allottee issues.

III. Project Use

Background

The CVP was authorized under Reclamation law and one of its primary purposes is the delivery of irrigation water supply. Power generated by the CVP is first used to operate the Project--this power is referred to as Project Use power. Power in excess of Project Use is marketed in accordance with Reclamation law as Preference power. As primarily outlined in the 1937 and 1939 Acts, the sale of Preference power was intended as a means of “financially aiding and assisting”, while not “impair[ing] the efficiency” of the Project. Preference customers play a key role in assisting in the repayment of the CVP.

Project Use is the electrical power required to operate the Project for Project purposes. This includes delivering water to Federal water contractors and wildlife refuges to meet certain environmental objectives. Project Use power is provided to those Reclamation-designated, CVP facilities, pursuant to Reclamation law, to meet statutory and contractual obligations. In the past, Project Use load consumed approximately 20-30 percent of the average annual gross energy generation of the CVP.

Project Use loads encompass over 180 different delivery points located throughout the CVP system from as far north as the Trinity and Shasta Dams in northern California to some smaller pumps in the southern San Joaquin Valley. Of these delivery points, there are several larger pumping plants (Tracy, Dos Amigos and the San Luis Unit) that account for over 75% of the total Project Use load. Approximately 45% of the energy consumed by Project Use loads is directly connected to Western’s transmission system, with Tracy Pumping Plant being the largest load. This information is significant, since the boundaries of the FCA have yet to be defined and in an effort to minimize costs, Western and

Post-2004 Power Marketing Plan

Implementation Brochure

Reclamation are intending to incorporate as many of the Project Use delivery points into the FCA as practicable. Western is exploring aggregating some of the smaller delivery points and perhaps “dynamically scheduling” some of the larger non-direct connected delivery points. Western is still evaluating other options to schedule and deliver power to Project Use loads. Preference power customers will continue to be responsible, as they are today, for paying their share of the costs associated with delivering power to Project Use loads.

Serving Project Use Load

With Contract 2948A terminating on December 31, 2004, Western will become operationally responsible for ensuring that Project Use energy needs are met. With the assistance from the Preference and water customers, Reclamation and Western evaluated methods to optimize the hydropower benefits of the CVP beginning in 2005. Two different workgroups, one facilitated by Reclamation and another by Western, evaluated methods and alternatives for operationally scheduling and developing a resource plan to meet Project Use beginning in 2005. Through these workgroups³ and other discussions with the customers, Western considered a variety of alternatives and options for inclusion in this Implementation Brochure.

The strategy selected to support Project Use is multi-faceted. First, Western intends to continue working with Reclamation and the water/power customers to develop mutually agreeable approaches to serve Project Use. Western and Reclamation believe that the Power Operations and Maintenance (O&M) Cost Sub-Allocation group provides the appropriate forum for the resolution of repayment responsibilities for Project Use costs. The formulas developed by this group (including representatives from Reclamation, Western, and the water and power community) will provide the basis for distributing Project Use costs beginning in 2005. In addition, another component of this strategy is to work closely with Reclamation to become better educated on Project Use load patterns in order to better understand and reduce uncertainty predicting Project Use loads.

Second, in order to reduce the market risk the Project may be exposed to under extreme hydrological circumstances, Western intends to make a forward power purchase. A critically dry year could cause a substantial financial impact to the Project. This is especially crucial if purchases are required to support Project Use loads in the real time market. This economic impact is further exacerbated through the Preference customers’ responsibility to pay for their share of Project Use purchases when generation is insufficient to meet the Project Use load. In this circumstance, Preference power customers will receive little to no Base Resource. Therefore to assure economic certainty, Western considers it prudent to make long term purchases in advance of 2005 to meet Project Use loads. In a critically dry year, approximately 270 gigawatt hours (GWh) would need to be purchased to meet Project Use loads during December through March. As new modeling information and Project Use load forecasts become available, the

³ Two of these workgroups have documented their analysis and recommendations through the publishing of reports. Reclamation’s Options Workgroup Final Report and Western’s Project Use Resource Plan (PURP) Phase 1 Report are available upon request.

Post-2004 Power Marketing Plan

Implementation Brochure

quantity and timing of the purchase could vary. If this purchase is not needed to support Project Use loads, then it will become part of the Base Resource.

The third facet of Western's Project Use strategy originally contemplated "self provision" of energy. This "self-provision" strategy offered Preference customers' a choice to contractually participate in a resource substitution program whereby they would provide a resource to serve a proportional share of the off peak Project Use load. This substitution would have allowed a shift of CVP generation from the off-peak periods to on-peak periods. To make the self provision concept cost effective, a significant number of Preference customers needed to be prepared to commit to this strategy on a long term basis. Given the apparent disinterest of most customers and the intent of a small subset of customers to modify the strategy, Western determined it is impractical to implement the self provision strategy.

Adoption of the strategies identified above will result in the Project being initially operated in a Project Use load following manner and may preclude opportunities to financially maximize Project power operations. Although adoption of the forward purchase strategy to meet the needs of a critical dry year addresses an important contingency, it nevertheless still leaves open the use of an energy banking arrangement, thus potentially reducing the amount of Base Resource available in the summer months. The value of the Base Resource could be enhanced if Preference customers support other strategies in addition to those listed above. One such strategy, as originally developed through Reclamation's Options Workgroup, could be an off peak purchase for Project Use, thereby increasing the amount of Base Resource available to Preference customers.

IV. Base Resource

The Base Resource is the power output of the CVP and Washoe Project plus existing purchase contracts, that Western determines will be available for marketing, after meeting the requirements and making adjustments for Project Use, First Preference entitlements, maintenance, reserves, transformation losses, and certain ancillary services that may be required for the FCA. The Base Resource, as defined above, will include CVP and Washoe Project generation supported by certain power purchases. The Base Resource will vary daily, weekly, monthly, and annually based on hydrology and other constraints that limit CVP operations. Western estimates that in an average year, the Base Resource will provide approximately 40% of the customers' present CVP/PG&E integrated power deliveries.

For planning purposes, Western expects Reclamation to provide a rolling weekly, monthly, and annual forecast. This forecast will provide maximum and minimum capacity and energy quantities available for the projected periods.

For the purpose of scheduling the available Base Resource, Western will use these forecasts to determine the daily maximum and minimum capacity and energy. The final forecast of available Base Resource for Preference customers may not be known until at least two days prior to the actual day of generation. Unforeseen circumstances coupled

Post-2004 Power Marketing Plan

Implementation Brochure

with the variable nature of CVP generation may result in adjustments to the actual day of generation schedules.

In an effort to supplement or “firm” the Base Resource, Western proposed in the Draft Brochure to purchase 150 to 200 MW around the clock (7 days a week, 24 hours a day). After considering customer comments and reviewing the contractual implications, Western has decided to forego making a Base Resource “firming” purchase at this time.

Daily and weekly “forecast” of energy

Reclamation currently has daily and weekly meetings to discuss Project operations. Western anticipates participating with Reclamation in these discussions to provide input on impacts to the power marketing function in order to assist Reclamation as it optimizes the water and power benefits of the Project.

It is anticipated that Reclamation will provide a weekly CVP generation forecast. Reclamation will also provide weekly forecasts of Project Use loads for Western to use in determining the energy requirements for Project Use for that week. Similarly, Full Load Service customers or their agents will provide a weekly load forecast for Western to use in forecasting their energy requirements also. Western will use this data and existing power purchase contract information to predict possible short-term purchase requirements to balance loads and resources for Project Use, First Preference and Full Load Service customers.

Daily Allocation of energy

Actual allocations of Base Resource energy will be done on a daily basis. Each customer will receive a percentage of the Base Resource, if they have sufficient load at its Western point(s) of delivery.

Preparing the Daily Schedule

It is anticipated that Reclamation will provide a daily water release forecast and provide the Project Use schedule for the day. Reclamation also will provide the following information for use in preparing the daily schedules:

- ✓ Maximum capacity
- ✓ Minimum capacity
- ✓ Total Energy
- ✓ Scheduled unit outages
- ✓ Ancillary Services available
- ✓ Any restrictions that may be in place for particular units or plants

Western will use this information to prepare a schedule for Project Use and First Preference Loads.

Post-2004 Power Marketing Plan
Implementation Brochure

After meeting the requirements and making adjustments for Project Use, First Preference, maintenance, reserves, transformation losses and certain ancillary services that may be required for the FCA, the remaining energy is available for scheduling to Preference Customers as the Base Resource. Each customer will receive a percentage of the Base Resource on a daily basis. The customer or customer's agent may shape the energy for its use within prescribed parameters. For example, each customer will have a maximum capacity that cannot be exceeded and may have a minimum capacity that must be scheduled.

Determining Maximum Capacity Available

The maximum capacity for each customer will be calculated for on-peak and off-peak values in the following manner:

Maximum capacity available from CVP
+ Capacity from existing contracts
- Project use capacity
- First Preference capacity
- Project Use ancillary service capacity
- FCA requirements
= Capacity available for Preference customer use

Capacity available for Preference customer use
- Spinning reserve for Preference customer (up to 5% if available)
= Capacity available for Preference customer scheduling

Capacity available for Preference customer scheduling
x Each customer's allocation percentage
= Maximum daily capacity for each customer

Determining Minimum Capacity

Most of the time, the minimum capacity requirement will be met by the Project Use loads. If not, then the minimum capacity is calculated in the following manner:

Minimum capacity resulting from water release requirements
+ Capacity from existing contracts (as applicable)
+ Capacity required for FCA requirements
- Project Use capacity
- First Preference capacity
= Minimum capacity required to be scheduled by Preference customers
x Each customer's allocation percentage
= Minimum capacity requirement for each customer

Post-2004 Power Marketing Plan

Implementation Brochure

Western will provide each customer's Scheduling Agent (SA) with the daily total MWh, and maximum and minimum capacity amounts. The customer's SA can then use this information to develop its preferred daily schedule.

Some Full Load Service customers may not have enough load to take their minimum capacity. Western will reallocate the minimum requirements to customers in the Full Load Service group so that the total minimum requirement is met. This circumstance will only occur in situations where little Project Use is scheduled. Please refer to Appendix 6 (Attachments A, B, C, D) for examples of customers' maximum and minimum capacity and energy quantities under two different operating scenarios.

Resource Shaping

Western envisions resource shaping will be done individually by the Variable Resource customers. Resource shaping for Full Load Service customers may be done individually or by aggregated groups.

Variable Resource and Full Load Service Customers

Western made some assumptions as to which customers may be in the Variable Resource or Full Load Service customer groups.

- Variable Resource customers currently schedule their Federal power with Western into their own "resource portfolio" to meet their full load requirements. Some new allottees may be in this group.
- Full Load Service customers are most of the remaining Western customers, who in most cases do not possess a resource portfolio. Western believes that the majority of new allottees will fall into this category.

Please see Appendix 7 for Western's preliminary listing of each customer's assumed placement. From a contractual standpoint, by virtue of executing a Base Resource Contract, all customers are Variable Resource customers. Customers desiring to participate in Full Load Service will need to execute, at a minimum, a Custom Product contract.

Full Load Service Customers

Western envisions that the Full Load Service customers may form aggregate groups and develop resource portfolios for each group. By forming these aggregate groups the customers may realize benefits by lowering their risks and being able to make more efficient use of Base Resource energy and Custom Product purchases.

With the formation of a FCA, there may be some customers who are unable to be included. In most cases, these customers will be subject to the CAISO (or successor) tariff and

Post-2004 Power Marketing Plan

Implementation Brochure

protocols or in the case of the City of Fallon and Truckee Donner Public Utility District, the Sierra Pacific Power Company control area and/or RTO West. If requested, Western is prepared to assist these customers by providing SA/SC services under a conditional SC arrangement. However, it is the customer's responsibility to secure necessary services to ensure that the customer can receive Federal power.

For a customer(s) requesting and receiving Full Load Service, Western will make a Custom Product power purchase(s) to supplement the Base Resource in order to meet the total load at an existing Western delivery point(s) as identified in a customer's existing electric service contract. Customers retain load growth responsibility through Western's delivery points. New Allottees requesting Full Load Service must have a Western delivery point(s) designated, load data available and appropriate metering in place in advance of 2005. To be eligible for Full Load Service, a customer's peak demand at its Western delivery point(s) must not exceed 50 MW (simultaneous demand for multiple delivery points). Full Load Service customers included in the CAISO control area must use Western as the provider of the SC technical function services under the customer's "Conditional" SC agreement and SA services, unless otherwise mutually agreed upon by Western and the customer.

Base Resource + Custom Product (CP))

Western recognizes that the Base Resource energy may not be enough to supply the customers' loads. Generally, a Custom Product will be required to serve a customer's total load through its Western delivery points. Western may aggregate all Full Load Service customers together for the purpose of making a more efficient Custom Product purchase to supplement the Base Resource.

Base Resource + Custom Product + Other Contracts

Some customers who have existing contracts for energy may ask Western to act as their SA. Their loads may be greater than their Base Resource allocation and other contracts combined and therefore, they may need Western to make a Custom Product purchase for them. These purchases may be individual or aggregated with the Full Load Service customers Custom Product purchase.

Conditional SC

Customers not included in the FCA will need a SC or enter into a Conditional SC agreement with the CAISO in order to receive their Base Resource and Custom Product energy. In the event that a customer is unable to enter into a Conditional SC agreement, Western will work with the customer to find a method of delivering its Federal power. However, it is the customer's ultimate obligation to secure any and all necessary services to ensure that the customer can receive Federal power.

Post-2004 Power Marketing Plan

Implementation Brochure

Base Resource Sharing

On an hourly basis, Western will aggregate the loads and compare them against the combined Base Resource energy for Full Load Serving customers to determine if a short-term purchase may be required. Western will distribute the Base Resource to each customer based on its percentage allocation. Unallocated Base Resource will become Exchange Energy, shared by the remaining Full Load Service customers requiring additional resources. Western will distribute the Exchange Energy by a ratio of each customer's load requirement over the total remaining customer load. Load not met by the Base Resource and Exchange Energy may be served by a Custom Product or existing customer contracts.

Custom Product Purchase

Aggregating Full Load Service customers' loads and Base Resource allocations will allow Western to take advantage of economies of scale by making a block purchase(s) for the Custom Product. Custom Product not used by the Full Load Service customers will be sold to the market to offset the cost of the Custom Product.

Exchange Program

Unallocated Base Resource energy (Exchange Energy) as described above will serve as an initial Exchange Program for the Full Load Service customers.

Variable Resource Customers

Each Variable Resource customer will receive its percentage allocation of the Base Resource. Western will provide each Variable Resource customer with operating parameters that include a daily maximum and minimum capacity amount and the total daily available energy. Each Variable Resource customer will provide Western with a "preferred schedule" for its Base Resource allocation that is within the operational parameters established by Western. Western will combine these schedules with the Full Load Service customer schedules and determine if sum total of schedules can be met by the water release and reservoir elevation requirements established by Reclamation and existing contract purchases. Schedule changes required due to water requirement violations will be made by Western, and "Final Schedules" will be given to all customers.

Base Resource + Custom Product

Some Variable Resource customers indicated they may want Western to make a Custom Product purchase. For economies of scale, a Custom Product purchase for

Post-2004 Power Marketing Plan

Implementation Brochure

these customers may be combined with the Full Load Service customers' Custom Product purchase.

Scheduling of energy

Federal power delivered by Western to Variable Resource customers will be scheduled through bilateral transactions or as SC to SC trades between Western and each Variable Resource Customer's SC. In the event a Variable Resource customer belongs to an adjacent control area other than the CAISO or successor, then its Federal power will be scheduled as an import/export transaction between control areas.

Variable Resource Customer Exchange Program

Based on initial analysis and the recognition that Western has yet to undergo the reallocation process as defined in the Marketing Plan and Base Resource Contracts, Western did not see a need to develop an Exchange Program for the Variable Resource customers. However, based on customer comments, Western will develop an Exchange Program exclusively for the Variable Resource customers.

First Preference Loads

Western anticipates acting as the SC or as a technical SC under a Conditional SC agreement, for the First Preference customers if they are not included in the FCA.

First Preference loads will be aggregated together to determine hourly Base Resource requirements. If there is not enough Base Resource available to serve all First Preference loads, assuming that these loads do not exceed their statutory entitlements, a purchase will be required to meet those loads. Purchases to meet First Preference loads, up to their statutory entitlement will be considered Project costs and paid for by Preference customers.

If a First Preference customer decides not to use Western as their SC or SA, an alternative SC and SA will be required and this First Preference Customer will be considered a Variable Resource customer. The Base Resource, as well as any applicable purchase needed to firm up to the First Preference customer's statutory entitlement, will be traded to the First Preference as an SC to SC trade.

V. Custom Product

Services

At a minimum, Western intends to offer the following Custom Product services for customers included in either the newly formed FCA:

Scheduling Agent (SA) Services - Western will provide SA services for customers requesting this service. Western may be unable to provide some SA services to all

Post-2004 Power Marketing Plan

Implementation Brochure

customers due to a customer's existing load characteristics and resource portfolio. Western will provide SA services for individual or groups of customers. SA services may include, but are not necessarily limited to, one or more of the following functions:

- 1) Development of load and resource schedules for use by the control area operator (CAO). Western will use a customer's actual meter data, market data, forecasting tools, other resources within a customer's portfolio, and parameters established by the customer, to develop schedules in an effort to minimize power costs to the customer;
- 2) Analysis of short-term markets and when prudent, adjust the customer's resource mix to minimize costs to the customer and submit an adjusted schedule to the customer's SC; and,
- 3) Provide load and resource schedules to a customer's SC (as applicable).

Scheduling Coordinator (SC) Services – Western will be the SC for the CVP resources and for Project Use load regardless of inclusion in the CAISO or other Control Area(s). Western will provide the technical functions of an SC, for Preference customers (including First Preference) requesting this service under a customer's Conditional SC Agreement with the CAISO. Technical function SC service may include, but is not necessarily limited to, one or more of the following functions:

- 1) Receive load and resource schedules from a customer's SA and submit the schedules to the appropriate CAO(s);
- 2) Receive adjustments to load and resource schedules from the customer's SA and submit to the CAO in the Hour Ahead (HA) market;
- 3) Submit load and resource meter data to the CAO as appropriate;
- 4) Validate settlement data from the CAO and dispute the settlement charges as appropriate; and,
- 5) Provide available actual metered demand and energy data to a customer's SA upon request.

Supplemental Power Purchase

Western will assist customers as appropriate, to identify the need for a Custom Product or firming purchase. Individual requirements will then be aggregated into a solicitation process for a purchase power contract. The solicitation process will be accomplished under the auspices of Western's power marketing authorities. Once initiated, the process is expected to culminate in executing Custom Product contracts between Western and its customers by no later than June 30, 2004.

Federal Register Notice (FRN) Date Change

In order to accommodate the Custom Product and Base Resource firming power purchase planning and solicitation process and schedule, Western will adjust the Marketing Plan commitment date for the Custom Product and Base Resource firming power purchase. A

Post-2004 Power Marketing Plan
Implementation Brochure

Federal Register Notice (FRN) to notify the public of the change of date from December 31, 2002 to no later than June 30, 2004 is forthcoming.

VI. Ancillary Services

As previously stated, Western is initiating the necessary steps to form a FCA. In the event all or a portion of the customers are part of this FCA, then the FCA may use CVP resources first to meet the necessary Ancillary Services to comply with WECC and NERC Control Area criteria. Control Area ancillary services include but are not necessarily limited to:

:

- Regulation
- Spinning Reserve
- Non-Spinning Reserve
- Replacement Reserve
- Voltage Support
- Black Start

There is a statutory responsibility to meet the ancillary service requirements of Project Use loads. Western will self-provide or acquire of the ancillary services to support Project Use power obligations. Western may provide CVP spinning/non-spinning reserves (up to 5% of the customer's Base Resource allocation) to Preference customers if available from CVP generation. Western may bid certain Ancillary Services into other markets to offset Project costs.

VII. Transmission and Delivery

Western will make the Base Resource available to the customer at the generator bus, or such other points as the Preference customer and Western mutually agree. However, it is the customer's responsibility to secure necessary transmission and delivery arrangements to ensure that the customer can receive Federal power.

Customers currently receive their Federal power through three different delivery mechanisms.

- 1) Customers directly connected to the CVP transmission system or connected to a wholesale utility distribution entity that is directly connected to the CVP transmission system; or,
- 2) Customers directly connected to the CAISO controlled grid (i.e. do not utilize PG&E's distribution system); or,
- 3) Customers directly connected to PG&E's distribution system (i.e. utilize both the CAISO controlled grid and PG&E's distribution systems).

Western is negotiating a continuation of the existing transmission arrangements under Contract 2948A. If an agreement cannot be reached, Western, as a qualified wholesale entity, may assist existing Federal end-use customers included in (2) and (3) above to

Post-2004 Power Marketing Plan

Implementation Brochure

acquire the necessary services for delivery to their existing delivery point(s). Customers included in (2) and (3) above, who request displacement of existing PG&E bundled retail service with Full Load service from Western (including new Allottees), should note that they may be subject to certain limitations/restrictions such as a PG&E "exit" fee.

It is unknown at this time how new allottees outside the FCA and CAISO will receive their Federal power. Western will work with these customers in order to explore delivery options.

VIII. Other Issues

Pacific AC Intertie (PACI) Policy

The PACI was originally constructed for the benefit of Project firming. Some customers requested Western to consider using the PACI as a transmission system Custom power Product. While Western recognizes the value of the PACI, Western does not intend to offer the PACI, a transmission system, as a separate product under this Power Marketing Plan. If excess capacity exists on the PACI beginning in January 2005, this will be made available via Open Access Same-Time Information System (OASIS).

Joint Powers Authority

Western understands that some customers may be exploring joining or establishing a new Joint Powers Authority (JPA) as a means to reduce costs and to facilitate receiving Federal power through the CAISO. Customers should be aware that an assignment of a customer's Base Resource contract to another entity, such as a JPA, requires the approval of Western's Administrator. Customers should refer to Section 18 of their Base Resource contract, Changes to Organizational Status, and the General Power Contract Provisions, regarding possible Western actions if a customer participates in a JPA. Such change in organizational status could result in an adjustment, at Western's sole discretion, to Western's power sales obligations under the Base Resource contract.

Funding

Budgetary resources for both the Base Resource and Custom Product contracts will be met through revenues received from Preference customers. In the ideal situation, Western contemplates that sufficient Use of Receipt authority will be forthcoming from Congress in order to have an efficient and effective program. In this operating scenario, revenues from the sale of power would be available to be used to pay for purchase power expenses. For Federal customers, Western contemplates continued use of the reimbursable funding authority.

Should budgetary resources associated with the Use of Receipt authority prove insufficient to meet anticipated expenses, customers may be asked to provide up-front funding similar

Post-2004 Power Marketing Plan
Implementation Brochure

to the Customer Advanced Funding program which currently exists. In this instance, customers would have their contributions credited against their power bills.

IX. Summary of Proposed Implementation Plan Action Items

After publication of this Implementation Brochure, Western intends to undertake the following actions:

- Develop a detailed project Implementation Plan identifying the required activities, actions, and associated schedules and milestones.
- Publish a Federal Register Notice to move the Custom Product customer commitment date from December 31, 2002 to “no later than June 30, 2004”.
- Proceed with a solicitation to make a multi-year forward purchase of approximately 270 gigawatt hours per year to mitigate short-term or spot market price uncertainties of purchases that are necessary to serve Project Use loads during a critically dry water year.
- Prepare a Custom Product(s) contract and make available to interested Preference customers.
- Identify an initial time frame “window” for a power purchase.
- Work with interested customers on a Custom Product power purchase in order to identify quantities for a future solicitation.
- Begin development of an operating agreement with Reclamation governing the water and power operations of the Central Valley Project.
- Identify and confirm non-direct connected Project Use and Preference Power points of delivery.
- Inventory existing Federally owned and operated facilities as part of the Federal Control Area initiative.

Post-2004 Power Marketing Plan
Implementation Brochure

Appendices:

1. Acronyms
2. Definitions
3. Washoe Project Description
4. 2004 Power Marketing Plan (64 FR 34417) June 25, 1999
5. 2005 Resource Pool (65 FR 45976) July 26, 1999
6. Examples of Customer's Possible Base Resource Quantities under different hydrological conditions (4 each)
7. List of possible customers in the Full Load and Variable Resource categories
8. Western's Responses to Customer Comments on the Draft Brochure

Post-2004 Power Marketing Plan
Implementation Brochure

APPENDIX 1

Post-2004 Power Marketing Plan
Implementation Brochure

Appendix 1 Acronyms

A/S	Ancillary Services (i.e., spinning reserve, non-spinning reserve, regulation, etc.).
BR	Base Resource
CAISO	California Independent System Operator
Contract 2948A	Integration Contract 14-06-200-2948A between PG&E and Western. (Provides for integrating SNR resources with PG&E's to provide a firm power product to SNR customers. The contract also provides for PG&E to provide wheeling of the power to SNR customers.)
CP	Custom Product
CPUC	California Public Utilities Commission
CRD	Contract Rate of Delivery (as provided in your current electric service contract).
CVP	Central Valley Project
DA	Day-ahead (scheduling term)
DAT	Direct Access Transmission Tariff
EA2	Energy Account #2. (An energy banking arrangement provided for under Contract 2948A.)
FERC	Federal Energy Regulatory Commission
FRN	Federal Register Notice
GMC	Grid management charge
GPCP	Western's General Power Contract Provisions
HA	Hour-ahead (scheduling term)
IA	Interconnection agreement
kV	Kilovolt
kW	Kilowatt
kWh	Kilowatthour
Marketing Plan	2004 Power Marketing Plan
MW	Megawatt
MWh	Megawatthour
NW	Northwest
OASIS	Open Access Same Time Information System
P04	Post-2004 Team
PG&E	Pacific Gas & Electric Company
PU	Project Use
Reclamation	United States Department of Interior, Bureau of Reclamation
RFP	Request for Proposal
RTO	Regional Transmission Operator

Post-2004 Power Marketing Plan
Implementation Brochure

Appendix 1 Acronyms (continued)

SA	Scheduling Agent
SC	Scheduling Coordinator
SNR	Sierra Nevada Region of the Western Area Power Administration
STP	Short-term purchase
Xm	Transmission
X/Y	(X over Y) billing as it relates to the method of determining the amount of Western power vs. the amount of PG&E power a customer took in a particular month under current electric service contracts and Contract 2948A.

Post-2004 Power Marketing Plan
Implementation Brochure

APPENDIX 2

Post-2004 Power Marketing Plan
Implementation Brochure

Appendix 2 Definitions

2004 Power Marketing Plan (Marketing Plan) means the final marketing program for the Sierra Nevada Region power after 2004 established through a public process and published in the Federal Register at 64 FR 34417.

Ancillary Services (A/S) means those services necessary to support the transfer of electricity while maintaining reliable operation of the transmission provider's transmission system in accordance with good utility practice. Ancillary services are generally described in FERC Order 888, and include: spinning reserve, non-spinning reserve, regulation.

Automatic Generation Control (AGC) means generation equipment that automatically provides regulation.

Base Resource (BR) means CVP and Washoe Project power output and existing power purchase contracts extending beyond 2004, as determined by Western to be available for marketing, after meeting the requirements of Project Use and First Preference Customers, and any adjustments for maintenance, reserves, transformation losses, and certain ancillary services. The Base Resource, as defined above, will include CVP and Washoe Project generation supported by certain power purchases.

California Independent System Operator (CAISO) means the FERC-regulated, state-chartered, nonprofit corporation control area operator of most of California's transmission grid. Its responsibilities include providing non-discriminatory access to the grid, managing congestion, maintaining the reliability and security of the grid, and providing billing and settlement services. The ISO has no affiliation with any market participant

Conditional Scheduling Coordinator means any ISO qualified entity that has executed a special scheduling coordinator agreement with the ISO under the "condition" that SNR, acting on behalf of the entity as an ISO certified scheduling coordinator, performs the technical scheduling and metering scheduling coordinator functions on behalf of the entity. The entity is responsible for all financial obligations, transactions, and settlements with the ISO under the special scheduling coordinator agreement.

Contract 14-06-200-2948A (2948A) means the Integration Contract between PG&E and Western, which expires December 31, 2004. The contract provides for integrating SNR resources with PG&E's to provide a firm power product to SNR customers. The contract also provides for PG&E to provide wheeling of the power to SNR customers.

Contract Rate of Delivery (CRD) means the maximum rate of delivery of energy a customer may take under its current electric service contract.

Custom Product (CP) means products and services beyond the base resource, such as supplemental power and SNR acting as the scheduling agent and/or scheduling Coordinator.

Post-2004 Power Marketing Plan
Implementation Brochure

Appendix 2 Definitions (continued)

Day-Ahead (DA) Market means the forward market for energy and ancillary services to be supplied during the settlement period for a particular trading day that is conducted by the ISO and other scheduling coordinators and which closes with the ISO's acceptance of the final day-ahead schedule.

Day-Ahead Schedule means a schedule prepared by a scheduling coordinator or the ISO before the beginning of a trading day indicating the levels of generation and demand scheduled for each settlement period of that trading day.

Direct Access means a service election allowing an entity to purchase electric power and additional energy services from non-utility entities (Energy Service Providers).

Direct Access Tariff (DAT) The rates and conditions under which PG&E will provide transmission to an entity for energy purchased from an energy service provider.

Energy Account #2 (EA2) means the energy banking arrangement provided for under Contract 2948A between SNR and PG&E.

Final Day-Ahead Schedule means the day-ahead schedule which has been approved as feasible and consistent with all other schedules by the ISO based upon the ISO's day-ahead congestion management procedures.

Final Hour-Ahead (HA) Schedule means the hour-ahead schedule of generation and demand that has been approved by the ISO as feasible and consistent with all other schedules based on the ISO's hour-ahead congestion management procedures.

Green Book is Western's modeling effort used to establish estimates of Base Resource quantities available under various hydrological conditions.

Grid Management Charge (GMC) means the ISO's monthly charge on all scheduling coordinators and other appropriate parties that provides for the recovery of the ISO's costs through three service charges, as follows: 1) the control area services charge; 2) the inter-zonal scheduling charge; and 3) the market operations charge. The three component charges are formula rates.

General Power Contract Provisions (GPCP) means the standard terms and conditions which are included in Western's contracts.

Hour-Ahead Market means the forward market for energy and ancillary services to be supplied during a particular settlement period that is conducted by the ISO and other scheduling coordinators which opens after the ISO's acceptance of the final day-ahead schedule for the trading day in which the settlement period falls and closes with the ISO's acceptance of the final hour-ahead schedule.

Post-2004 Power Marketing Plan
Implementation Brochure

Appendix 2 Definitions (continued)

Hour-Ahead Schedule means a schedule prepared by a scheduling coordinator or the ISO before the beginning of a settlement period indicating the changes to the levels of generation and demand scheduled for that settlement period from that shown in the final day-ahead schedule.

Interconnection Agreement (IA) means the contractual arrangement between two parties to physically join their electric systems.

Long-Term Purchase (LTP) means a power purchase under contract with a duration of more than 5 years.

Post-2004 Team (P04) means the group of SNR employees designated to implement the 2004 Power Marketing Plan.

Preferred Schedule means the initial schedule produced by a scheduling coordinator that represents its preferred mix of generation to meet its demand. For each generator, the schedule will include the quantity of output, details of any adjustment bids, and the location of the generator. For each load, the schedule will include the quantity of consumption, details of any adjustment bids, and the location of trades between the scheduling coordinator and all other quantities and location of trades between the scheduling coordinator and all other scheduling coordinators. The preferred schedule will be balanced with respect to generation, transmission losses, load, and trades between scheduling coordinators.

Project Use (PU) means power designated by Reclamation Law to be used to operate CVP and Washoe Project facilities.

Project Use Power Purchase (PUPP) means a power purchase specifically designated to serve project use.

Regional Transmission Operator (RTO) means a voluntary organization approved by FERC and composed of transmission owners, transmission users, and other entities, organized to efficiently coordinate the planning, expansion, and use of transmission on a regional and inter-regional basis.

Regulation means that portion of a generating unit's unloaded capability which can be loaded or loaded capability which can be unloaded, in response to automatic generation control signals from the control area operator's energy management system control computer. Regulation is used to provide control area balancing, frequency bias, and time error correction.

Request for Proposal (RFP) means a solicitation for bids for products or services. In this case, SNR will be soliciting bids for supplemental power to be provided under the custom product.

Post-2004 Power Marketing Plan
Implementation Brochure

Appendix 2 Definitions (continued)

Schedule means a statement of (i) demand, including quantity, duration, and take-out points and (ii) generation, including quantity, duration, location of generating unit, and transmission losses; and (iii) self-provided ancillary services, submitted by a scheduling coordinator to the ISO. "Schedule" includes preferred schedules, suggested adjusted schedules, final schedules and revised schedules.

Scheduling Agent (SA) means the entity responsible for determining the customer's load forecast and procuring the energy, transmission, and ancillary services for each hour of the scheduling day.

Scheduling Coordinator (SC) means the entity responsible for providing schedules and interacting with the ISO on behalf of the customer. An SC must be authorized (through certification and a contract) to interact with the ISO.

Short-Term Purchase (STP) means a power purchase under contract with a duration of less than 5 years.

Spot-Market Purchase means a power purchase made in either the day- or hour- ahead market.

Suggested Adjusted Schedule means the output of the ISO's initial congestion management for each scheduling coordinator for the day-ahead market ("Suggested Adjusted Day-Ahead Schedule") or for the hour-ahead market ("Suggested Adjusted Hour-Ahead Schedule"). These schedules will reflect ISO suggested adjustments to each scheduling coordinator's preferred schedule to resolve inter-zonal congestion on the ISO-controlled grid, based on the adjustment bids submitted. These schedules will be balanced with respect to generation, transmission losses, load, and trades between scheduling coordinators to resolve inter-zonal congestion.

Trading Day means the 24-hour period beginning at the start of the hour ending 0100 and ending at the end of the hour ending 2400 daily, except where there is a change to and from daylight savings time.

Transfer Schedule means a schedule for energy that is delivered from one scheduling coordinator to another. Each transfer schedule must originate and terminate completely within the ISO control area and may not involve more than two (one sending and one receiving) scheduling coordinators.

Transmission Access Charge (TAC) means a fixed tariff rate that recovers the portion of a utility's transmission revenue requirement not recovered through the variable usage charge.

Post-2004 Power Marketing Plan
Implementation Brochure

Appendix 2 Definitions (continued)

Transmission Control Agreement means the agreement between the ISO and participating transmission owners (PTOs) establishing the terms and conditions under which transmission owners will become PTOs and how the ISO and each PTO will discharge their respective duties and responsibilities, as may be modified from time-to-time.

Usage Charge means the amount of money, per 1 kW of scheduled flow, that the ISO charges a scheduling coordinator for use of a specific congested inter-zonal interface during a given hour.

Utility Distribution Company (UDC) means a distribution wires business and a regulated retailer who serves end-use customers.

X/Y means the billing methodology used to calculate most of Western's current smaller customers power bills. "X over Y" billing relates to the method of determining the amount of SNR power vs. the amount of PG&E power a customer took in a particular month under current electric service contracts and Contract 2948A.

Post-2004 Power Marketing Plan
Implementation Brochure

APPENDIX 3

Post-2004 Power Marketing Plan
Implementation Brochure

Appendix 3: Washoe Project

Washoe Project

The Washoe Project consists of one power plant located at the Stampede Dam near Truckee, California, and has a maximum operating capacity of approximately 3.65 MW and an average annual output of approximately 10,000 MWh.

Western proposes to maintain the contract with Sierra Pacific Power Company which provides for Sierra Pacific Power Company (or its successor) to provide energy to support U.S. Fish and Wildlife efforts at the Lahontan and Marble Bluff Fish Hatcheries. These facilities are Project Use loads and have first call on power resources from the Washoe Project. Any remaining power is sold to Sierra Pacific Power Company and a true up is done in March of each year.

Post-2004 Power Marketing Plan
Implementation Brochure

APPENDIX 4

Post-2004 Power Marketing Plan
Implementation Brochure

APPENDIX 5

Post-2004 Power Marketing Plan
Implementation Brochure

APPENDIX 6

Post-2004 Power Marketing Plan
Implementation Brochure

APPENDIX 7

Post-2004 Power Marketing Plan
Implementation Brochure

APPENDIX 8

Post-2004 Power Marketing Plan
Implementation Brochure

Appendix 8 Western's Responses to Customer Comments on the Draft Brochure

Federal Control Area (FCA)

Western received twenty-seven comments from customers regarding the FCA.

Comment: One customer took a position that the existing Base Resource contract precluded Western from using ancillary services for the proposed FCA.

Response: Under the Marketing Plan and Base Resource contracts, Western determines the Base Resource after meeting the requirements of Project Use and First Preference customers, and any adjustments for maintenance reserves, transformation losses and ancillary services. Therefore there is nothing in the Base Resource contract that precludes Western from using ancillary services for the proposed FCA.

Comment: Nine customers indicated unconditional support, while an additional sixteen others indicated their support if the new control area was economically and technically viable. Two customers expressed interest in receiving an allocation of ancillary services even if they are unable to become participants in the proposed new FCA. One of these same two customers also advocated a position whereby non-direct connected customers, unable to be a part of the proposed new FCA, would have their incremental costs (the difference between CAISO and FCA costs) treated as Project costs.

Response: Western remains committed to ensuring that Preference customers, regardless of transmission connectivity, are afforded equal opportunity to benefit either physically or financially from the formation of a FCA.

As technical studies proceed, most if not all of the customer's concerns should be addressed. Western intends to evaluate various FCA configurations and other control area options and the benefits associated with each. As Western and Reclamation complete equipment and facility inventories and analyze the economic implications of different control area options, Western will revisit customer comments submitted in response to the Draft Implementation Brochure and share preliminary results from these studies by the Fall of 2002.

Project Use Power Purchase

Western proposed making a forward power purchase to reduce the market risk Preference customers could be exposed to as a result of a critically dry hydrological year. Western's modeling of the CVP system suggests that Project Use loads would exceed Project generation amounts by approximately 270 gigawatt-hours (GWh) during the late fall and early winter months (December through March). Further, Western suggested raising this purchase amount to as high as 500 GWh in order to afford Preference customers some amount of Base Resource under these dry conditions.

Post-2004 Power Marketing Plan

Implementation Brochure

Comment: Of the 40 customer responses received by Western, eight customers were in full support of Western using this strategy to protect against price uncertainty and unfavorable hydrological conditions. An additional nineteen of the respondents supported the concepts articulated in the Draft Brochure, but had some reservations, concerns and suggestions on the approach Western should take to initiate the purchase.

Response: Western intends to proceed with the development of a solicitation for a forward Project Use purchase in an amount that would hedge against a critically dry year. There is wide support for the proposal. Western will consider a variety of purchase instruments and methodologies to make this purchase. Western will use some of the customer's written suggestions to draft a solicitation. At a minimum, Western intends to initiate a portion of this purchase as soon as practicable in order to take advantage of attractive market conditions. Further, by committing to this partial purchase, Western can continue to collect and analyze more recent hourly Project Use loads since they should be more indicative of Post-2004 characteristics. This additional time may also allow for new modeling information to become available for Post-2004 too. As new information is made available, either through modeling or from actual load data, Western understands that the purchase amount could vary slightly from the 270 GWh amount.

Comment: Some customers expressed concern regarding repayment responsibilities for a forward Project Use purchase.

Response: The Power Operations and Maintenance (O&M) Cost Sub-Allocation group is developing the methodology and/or formularies that will ultimately determine the Preference and water customers' repayment responsibilities in Post-2004. Western is a participant in these discussions which are expected to be completed in late 2002. Western encourages all Preference customers to remain informed and participate in this group's activities. This group's efforts will lay the groundwork for repayment responsibilities, to include power purchases, under the new Marketing Plan.

As the final piece of Western's proposed strategy to meet Project Use load, Western proposed a "self-provision" strategy. Western's intent in proposing the strategy was to allow customers to contractually participate in a resource substitution program that allowed for shifting CVP generation from off-peak to on-peak periods.

Comment: Two customers supported the self-provision strategy as listed in the brochure, while another two supported the concept, but placed additional conditions on their full support. One customer did not support self provision at all.

Response: Western received minimal customer comments back on this proposed strategy. To make the self provision concept cost effective, a significant number of Preference customers needed to be prepared to commit to this off-peak to on-peak strategy on a long term basis. Given the apparent disinterest of most customers and the intent of a small subset of customers to modify the strategy, Western determined it is impractical to implement the self provision strategy at this time.

Post-2004 Power Marketing Plan

Implementation Brochure

Base Resource

Western requested customer comment in the draft brochure regarding supplementing the Base Resource by an amount of 1,300 to 1,700 GWh per year. While the Marketing Plan originally envisioned such a power purchase as a Custom Product, customer input received by Western in early 2002 suggested that there might be widespread customer support for integrating such a firming product into the Base Resource.

Western received comments back from thirty-two customers.

Comment: Half of the respondents were interested in firming the Base Resource, whereas a little less than a quarter of the respondents did not support this concept.

Response: Further administrative review of such a suggestion indicates that if Western were to firm the Base Resource then an amendment to the Base Resource contract would be necessary. Given that some customers are not supportive of such a product, reaching consensus of all customers would be difficult. However, for interested customers, a firming product is available through the Custom Product.

Full Load Service

Ten customers addressed or provided comments on the Full Load Service customer option.

Comment: All ten customers supported the Full Load Service concept with seven of the ten indicating a strong interest in entering into a Full Load Service arrangement, and the remaining three indicating an interest under certain conditions or provisions. Nine of the ten customers appear to qualify for Full Load Service based on the preliminary criteria set forth in the Draft Brochure.

Response: Based on the customer support of Full Load Service as described above, no significant changes or adjustments will be made to the criteria, eligibility guidelines, and services proposed in the Draft Brochure for Full Load Service.

First Preference Issues

Western received comments from three of the four First Preference customers.

Comment: As a result of one of the customer's interpretation of the First Preference statutes, they believed that First Preference customers are exempt from paying any costs associated with firming its power.

Response: If purchases are needed to support First Preference statutory entitlements, all Preference customers will repay these costs. However, if First Preference customers contract for a Custom Product to meet their load obligations above their entitlements, they are responsible for paying those costs. Services for First Preference SC or SA functions will be borne by the First Preference customers.

Post-2004 Power Marketing Plan

Implementation Brochure

Comment: Two First Preference customers indicated they expect Western to fully meet all of their load obligations pursuant to the First Preference statutes.

Response: This Implementation Brochure contemplates that First Preference customers will receive firming power to the extent needed to meet their load up to the MEFPC. First Preference customers are not automatically entitled to other incidental power services, such as delivery, transmission and reserves, based solely on their First Preference statutes. Such incidental power services are the responsibility of the First Preference customer.

Comment: According to one First Preference customer, there appears to be some confusion as to when First Preference must sign their Base Resource contracts.

Response: The Marketing Plan specifically states that "...electric service contracts shall be executed within 6 months of a contract offer." First Preference customers have until December 31, 2002 to decide whether to enter into contracts as either a full-requirements or a percentage customer. Accordingly, the June 30, 2003 deadline identified in the Draft Brochure translates to the 6-month review period after the December 31, 2002 election date established in the Marketing Plan.

Exchange Program

Six customers addressed or provided comments on the Exchange Program.

Comment: All six customers indicated a desire for Western to formulate an Exchange Program for the Variable Resource customers. Five of the six customers are ineligible for Full Load Service based on the Draft Brochure criteria. All six customers suggested that Base Resource energy within the Full Load Service customer group in excess of load should be made available to all Preference customers through various reallocation or other methodologies.

Response: The Brochure describes the Full Load Service customer Exchange Program. Acting as the Full Load Service customer's Scheduling Agent and Coordinator, Western determines the quantity of unallocated Base Resource energy available from a scheduling group of Full Load Service customers with insufficient load in any hour. Western utilizes this energy to support the remaining Full Load Service customer's aggregated daily needs within the group portfolio. The revenue generated from Western using the Exchange energy within these portfolios reduces the overall cost of the Project and thereby benefits all Preference customers.

If a Variable Resource customer's total load is less than its Base Resource allocation in any hour, Western intends to develop a methodology that makes the Exchange energy available to the remaining Variable Resource customers. Conceptually this program should afford the same benefits amongst the Variable Resource customers as is made available to the Full Load Service customers. Again, the revenue collected from the Exchange energy will reduce the overall cost of the Project and benefit all Preference customers. Although Western did not initially believe that an Exchange program was necessary (at least initially) among the customers within the Variable Resource group, as a result of

Post-2004 Power Marketing Plan

Implementation Brochure

comments, Western now intends to develop an Exchange Program for this class of customers as part of the implementation process.

Due to the nature of significantly different scheduling protocols between the Variable Resource and Full Load Service customers, it is operationally impractical for Western to redistribute Exchange energy between these two customer groups. In the event neither the Full Load Service nor Variable Resource customers can use their Exchange energy, Western may sell the energy to the market and the resulting revenue would offset the overall cost of the Project and thereby benefit all Preference customers.

Western will establish the Exchange energy rates through a public process to begin early in 2003.

Custom Product

Customer comments regarding Custom Product were varied.

Comments: In general, responses continued to support Western's concept of providing supplemental power purchases for interested customers and some additional scheduling services as appropriate. Some customers expressed concern about cost shifting for Custom Product customers. In addition, most customers who commented on the FRN date change supported it.

Response: Western intends to judiciously monitor and assign Custom Product costs to appropriate customers in order to prevent any cost shifting to other customers. Also, given the customer support, Western intends to prepare a revised Federal Register Notice that changes the Custom Product contract date from December 31, 2002 to no later than June 30, 2004.

Ancillary Services

Six customers provided comments on the Ancillary Service (A/S) element. Of the six customers, four are Variable Resource customers while the remaining two meet the qualifications for Full Load Service.

Comment: Three of the four Variable Resource customers indicated a strong desire that an appropriate share of the A/S be made available to them first, regardless of the need for them by the FCA. Of the two Full Load Service customers, one stated that the A/S should be provided to Project Use and First Preference only, with the other indicating that First Preference should not receive a preferential treatment in the receipt of A/S benefits.

Response: This Brochure states that Western is not obligated to provide A/S as part of the Base Resource or First Preference contracts. The Project Use loads and FCA will have first priority to the Project's A/S as stipulated in the FRN under the definition of the Base Resource. Any remaining Spinning/Non-Spinning Reserves may be made available to Preference customers. Revenue received by Western for A/S would be used to offset the overall cost to the Project and therefore benefit all Preference customers.

Post-2004 Power Marketing Plan **Implementation Brochure**

Transmission

Thirteen customers provided comments on transmission and delivery.

Comments: Of the thirteen customers, six are Variable Resource and seven appear qualified for Full Load Service. Several of the Variable Resource customers indicated a strong desire for Western to “allocate” or make available its PACI capacity rights to import Custom Product in proportion to each customer’s Base Resource percentage. Several also indicated that Project Use and First Preference customers should be responsible for their own transmission and delivery costs. Two First Preference customers believe that Western is responsible for the delivery of their power.

Response: In response to the customers who expressed interest in an allocation of PACI rights, Western maintains the position that PACI capacity rights (1) are not part of the Marketing Plan, (2) will not be allocated to individual customers, and (3) will be used by Western for the benefit of the Project. If PACI capacity is not needed by Western to meet Project needs, it will be made available via open access through OASIS.

Western markets power only after serving the Project Use loads. The marketing of power may not impair the primary purposes of the CVP, which include, flood control, navigation and irrigation. The Power Operations and Maintenance (O&M) Cost Sub-Allocation group will ultimately determine the water and power customers’ share of these delivery costs.

As each Base Resource Contract and the Marketing Plan stipulate, all preference customers are responsible for making arrangements for the delivery of their Federal power (i.e. Base Resource and Custom Product (if applicable)). This stipulation not only encompasses transmission but also control area charges associated with wheeling Federal power to delivery points. Western understands and appreciates the concern expressed by the customers regarding their ability to obtain these arrangements, especially at a reasonable cost. With this in mind, Western is currently pursuing a “wheeling” arrangement with PG&E for Federal power deliveries to Project Use and Preference customer loads. If unsuccessful in negotiating a “wheeling” arrangement with PG&E, Western will pursue other options for assuring delivery of Federal power to these loads.